

## Message Text

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PAGE 01 GENEVA 09623 01 OF 02 240000Z  
ACTION AGRE-00

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13  
ISO-00 STRE-00 CEA-01 CIAE-00 COME-00 DODE-00  
EB-08 FRB-03 H-01 INR-10 INT-05 L-03 LAB-04  
NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15 STR-07  
ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01 DOE-15  
/167 W

-----034242 240033Z /12

P 231934Z JUN 78  
FM USMISSION GENEVA  
TO SECSTATE WASHDC PRIORITY 1309  
INFO ALL OECD CAPITALS  
AMEMBASSY BUENOS AIRES

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 09623

USMTN  
PASS ELECTRONICALLY STR (STARKEY) AND USDA (HATHAWAY,  
OYLOE AND RIESZ)  
STR PASS CODEL  
LONDON PASS SAYLOR

E.O. 11652: N/A  
TAGS: MTN, ETRD  
SUBJECT: MTN SUBGROUP DAIRY - JUNE 19-22 MEETING  
REF: A) STATE 154362, B) STATE 156940

1. SUMMARY. THE MTN SUBGROUP DAIRY IN ITS JUNE 19-22  
MEETINGS REVIEWED ONLY THE PROTOCOLS ON MILK POWDER,  
BUTTER FAT AND CHEESES RATHER THAN THE WHOLE DRAFT AGREE-  
MENT AS ORIGINALLY PLANNED. LITTLE PROGRESS WAS MADE  
PRIMARILY BECAUSE OF DISAGREEMENT AMONG PARTICIPANTS  
OTHER THAN THE U.S. THE NEXT MEETING OF THE GROUP, SCHED-  
ULED TO BEGIN JULY 3, IS INTENDED TO FINALIZE IN CON-  
TINUED SESSIONS THE DAIRY AGREEMENT. PRECISE GUIDANCE  
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PAGE 02 GENEVA 09623 01 OF 02 240000Z

ON A NUMBER OF ISSUES ESSENTIAL TO U.S. TRADE INTERESTS  
IS URGENTLY REQUIRED. END SUMMARY.

2. THE MTN SUBGROUP DAIRY MET JUNE 19-22. THE EC BEING  
REPRESENTED ONLY BY EXPERTS THE SUBGROUP LIMITED ITS WORK  
TO AN EXAMINATION OF THE THREE PROTOCOLS ON MILK POWDERS,  
BUTTER FAT AND CHEESES AND TOUCHED BRIEFLY ON A NEW  
ARGENTINE PROPOSAL FOR SAFEGUARDS, SUBSIDIES AND HEALTH

MEASURES. AUSTRALIA (MOORE WILTON) ANNOUNCED THAT IT WILL SUBMIT AT THE NEXT MEETING A NEW PROPOSAL CONCERNING EXPORT SUBSIDIES.

3. THE FOLLOWING ITEMS REFER TO MTN/DP/W/27/REV. 5.

4. CASEIN (ARTICLE 1/1/6): AUSTRALIA WISHES THIS PRODUCT WOULD BE INCLUDED IN THE PRODUCT COVERAGE BUT MOST OTHER DELS WISH TO EXCLUDE IT.

5. TERMS OF SALE FOR PILOT PRODUCTS TO WHICH MINIMUM PRICE APPLIES (ARTICLE 2/1): THE PRESENT DRAFT PROVIDES FOR "PROMPT PAYMENT AGAINST DOCUMENTS". U.S. DEL (KOENIG) SUGGESTED AMENDMENT TO THE EFFECT THAT THE "MINIMUM PRICES ARE EXCLUSIVE OF CREDIT CHARGES". THIS AMENDMENT IS NECESSARY IN VIEW OF THE FACT THAT THE PRESENT DRAFT PROVIDES IN ARTICLE 3/4 THAT "IF THE TERMS OF THE SALE INCLUDE CREDIT, THIS SHALL BE CHARGED AT THE PREVAILING COMMERCIAL RATE". SINCE THIS PROVISION WOULD EXCLUDE CCC CREDIT AND CERTAIN PL 480 TRANSACTIONS, US DEL PROPOSED AMENDMENT READING "OR IN LINE WITH OTHER PREVAILING PRACTICES". CANADA (GIFFORD) ARGUED THAT CCC CREDIT WOULD GIVE U.S. UNFAIR COMPETITIVE ADVANTAGE. HENCE THE MINIMUM PRICE APPLICABLE TO THE U.S. SHOULD BE HIGHER THAN THAT APPLICABLE TO OTHER COUNTRIES. US POINTED OUT THAT THE MINIMUM PRICE IS A CONCEPT DIFFERENT FROM THE TERMS OF PAYMENT WHICH ALSO INCLUDE CREDIT CHARGES. IF LIMITED OFFICIAL USE

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PAGE 03 GENEVA 09623 01 OF 02 240000Z

CREDIT CHARGES WERE PART OF THE MINIMUM PRICE THERE COULD BE NO SINGLE MINIMUM PRICE. (IT SHOULD BE NOTED THAT THE U.S. WOULD BE PENALIZED IF CCC CREDIT OR CONCESSIONAL TRANSACTIONS OF A COMMERCIAL NATURE WERE NOT PERMITTED. SUBSIDIZED CREDITS OF OTHER SUPPLIERS ARE NOT AS WELL KNOWN AS CCC CREDIT TERMS.)

6. TERMS OF SALES (ARTICLE 2/1) - FOB PRICING: CANADA SUGGESTED THAT THE FOB PRICE FOR CANADA APPLY AT OR NEAR THE U.S. /MEXICAN FRONTIER. US REPLIED AS PER INSTRUCTIONS. CANADIAN PROPOSAL WAS ALSO OPPOSED BY EC (BARSUGLIA) AND ARGENTINA (RAIMONDI). FINLAND (PULLINEN) PROPOSED THAT ITS FOB PRICE APPLY AT HAMBURG AND ROTTERDAM AND FOR SHIPMENTS TO SWITZERLAND AT BASEL (SIC).

7. MAXIMUM PRICES (ARTICLE 3/2): EC WITH WEAK SUPPORT FROM JAPAN (UENO) SUPPORTED MAXIMUM PRICES. NEW ZEALAND (FARNON), AUSTRALIA, ARGENTINA, U.S. AND OTHERS OPPOSED MAXIMUM PRICES.

8. LEVEL OF MINIMUM PRICES (ARTICLE 3/2): THE FOLLOWING SUGGESTIONS WERE MADE (\$/MT).

A) NFD: SPAIN - \$350; EC - UNDER \$ 480; NEW ZEALAND - \$ 500.

B) BUTTER: EC - \$ 900 - 1000; AUSTRALIA AND NEW ZEALAND - 1100.

9. DEROGATION FROM MINIMUM PRICES (ARTICLE 3/5/A):  
CANADA ARGUED FOR AUTOMATIC DEROGATION FROM MINIMUM PRICE FOR NFD FOR FEED. THIS WOULD ENABLE CANADA AT ANY ONE TIME AND REGARDLESS OF THE LEVEL OF MARKET PRICES TO SELL BELOW THE MINIMUM PROVIDED IT COULD PROVE POST FACTUM THAT THE NFD IN QUESTION HAS BEEN MADE UNFIT FOR HUMAN CONSUMPTION. CANADA DECLARED THAT SUCH A DEROGATION IS A CONDITION SINE QUA NON FOR ITS PARTICIPATION IN THE LIMITED OFFICIAL USE

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PAGE 04 GENEVA 09623 01 OF 02 240000Z

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PAGE 01 GENEVA 09623 02 OF 02 240007Z  
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FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00  
NSC-05 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01  
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LIMITED OFFICIAL USE SECTION 02 OF 02 GENEVA 09623

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STR PASS CODEL

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DAIRY AGREEMENT. THE EC STRONGLY OPPOSED THE CANADIAN REQUEST AND SUGGESTED THAT A DEROGATION FROM THE MINIMUM PRICE SHOULD BE SUBJECT AT LEAST TO ADVANCE NOTIFICATION TO THE COMMITTEE FOR MILK POWDERS OR POSSIBLY SUBJECT TO THE APPROVAL OF THIS COMMITTEE. CANADA WAS SUPPORTED BY AUSTRALIA, NEW ZEALAND, JAPAN AND SPAIN (IRANZO). THE U.S. SUPPORTED THE EC. (FYI: CANADA INSISTS ON THE RIGHT TO AN AUTOMATIC DEROGATION IN ORDER NOT ONLY TO OFFSET THE DISADVANTAGE ARISING FROM THE OBLIGATION OF MINIMUM PRICING FOB CANADIAN FRONTIER (IN RELATION TO THE U.S.) BUT ALSO IN ORDER TO BE COMPETITIVE ON OVERSEAS MARKET. UNRESTRAINED SELLING BY CANADA BELOW THE MINIMUM PRICE IS LIKELY TO INDUCE OTHER EXPORTERS (PARTICULARLY THE EC) TO LIMITED OFFICIAL USE

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PAGE 02 GENEVA 09623 02 OF 02 240007Z

SELL BELOW THE MINIMUM PRICE. THIS COULD HAVE VERY STRONG IMPACT ON THE PRICES OF U.S. SOYBEAN MEAL.)

10. DEROGATION (ARTICLE 3/5/A): THE US PROPOSAL THAT A COUNTRY SEEKING A DEROGATION SHOULD FIRST DEMONSTRATE THAT IT IS NOT FEASIBLE TO DIVERT THE PRODUCT IN QUESTION TO FOOD AID WAS COLDLY RECEIVED BY ALL OTHER DELS. THE AUSTRALIAN DEL CALLED THIS PROPOSAL PRESUMPTUOUS BUT SOFTENED ITS LANGUAGE WHEN U.S. ASKED WHETHER IT IS PRESUMPTUOUS TO HELP LDC'S.

11. TRANSACTIONS OTHER THAN NORMAL TRANSACTIONS (ARTICLE 3/8): U.S. PROPOSED THAT "CONCESSIONAL SALES" SHOULD BE ADDED TO THIS PARAGRAPH, A PROPOSAL RECEIVED WITH GREAT RESERVATION BY OTHERS.

12. PROTOCOL REGARDING CHEESE: AUSTRALIA INSISTED THAT INCLUSION OF CHEESE MINIMUM PRICES IS INDISPENSABLE IF AUSTRALIA IS TO JOIN THE AGREEMENT. MOST DELEGATIONS EXCEPT CANADA OPPOSED THIS PROPOSAL AND AUSTRALIA THEN ASKED THAT DELS DECLARE IN THE NEXT MEETING WHETHER THEY WOULD BE WILLING TO NEGOTIATE A CHEESE PROTOCOL WITH MINIMUM PRICE PROVISIONS AFTER JULY 15.

13. CONCERTED DISCIPLINES: AS WILL HAVE BEEN NOTED, REVISION 5 OF THE DRAFT AGREEMENT OMITTS THE TERM "CONCERTED DISCIPLINES" BUT CONTINUES TO INCLUDE THE EC LANGUAGE ON CONCERTED DISCIPLINES IN ARTICLES 6 AND 8 OF THE CHEESE PROTOCOL, PAGES 47 AND 48. THE EC WAS UNABLE TO EXPLAIN THE MEANING OF THEIR PROPOSAL AND WAS OBVIOUSLY UNAWARE OF ITS INTENT AND ITS IMPLICATIONS.

14. ARGENTINE PROPOSALS: NEW ARGENTINE PROPOSALS CON-

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PAGE 03 GENEVA 09623 02 OF 02 240007Z

CERNING PROVISIONS FOR SAFEGUARDS, SUBSIDIES AND HEALTH MEASURES (HANDCARRIED TO WASHINGTON BY WADSWORTH) WERE ONLY BRIEFLY DISCUSSED.

15. THE SECRETARIAT WILL DISTRIBUTE WITHIN THE NEXT DAYS A CORRIGENDUM TO REVISION 5 REFLECTING THIS WEEKS DISCUSSIONS INCLUDING THE ANNOUNCED AUSTRALIAN SUBSIDY PROPOSAL.

16. ACTION REQUESTED: IN ORDER TO COMPLETE THE TEXT OF THE DRAFT AGREEMENT WE URGENTLY NEED PRECISE WASHINGTON INSTRUCTIONS ON ALL THE POINTS RAISED IN THIS REPORT AND IN PARTICULAR WASHINGTON'S APPROVAL OF THE AMENDMENTS SUGGESTED BY US DEL. MOREOVER WE NEED MORE PRECISE INSTRUCTIONS ON THE GENERAL PROVISIONS OF THE DRAFT, I.E.:

A) ENTRY INTO FORCE: SUGGESTIONS HAVE BEEN MADE THAT THE ARRANGEMENT COULD COME INTO FORCE ON A PROVISIONAL BASIS BEFORE THE FORMAL ACCEPTANCE OF THE FINAL ACT OF THE MTN OF WHICH IT WOULD BE A PART. PLEASE INFORM US WHETHER THIS WOULD BE POSSIBLE OR WHETHER, SINCE US ADHERENCE WOULD BE A CONCESSION ON OUR PART, IT COULD ONLY TAKE PLACE AT THE CONCLUSION OF THE MTN.

B) WITHDRAWAL (ARTICLE 7/B - PAGE 18): THIS PARAGRAPH PROVIDES THAT A COUNTRY WITHDRAWING FROM THIS ARRANGEMENT WOULD BE SUBJECT TO RETALIATORY ACTION ON THE PART OF A PARTICIPANT WHO CONSIDERS THAT THE WITHDRAWAL AFFECTS THE OVERALL BALANCE OF RIGHTS AND OBLIGATIONS. WE STRONGLY SUGGEST THAT US DOES NOT ACCEPT THESE PROVISIONS SINCE WE BELIEVE THE AGREEMENT IS SELF-BALANCED AND AT ANY RATE THERE IS NO PRECEDENT IN OTHER COMMODITY ARRANGEMENTS FOR SUCH PROVISIONS.

17. DRAFTED BY KOENIG. MCDONALD

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## Message Attributes

**Automatic Decaptioning:** X  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014